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Working on Water
by Senator Larry Craig

If you've watched the arid West grow like I have, you know America will face a water supply crisis before long. Massive population growth, drought, and competing demands of growing cities, agriculture, and the environment are putting unprecedented stress on the nation's water resources. At the same time, much of the water related infrastructure the country has relied upon is suffering the infirmities of old age and is badly in need of update and repair.

Recent surveys by both the U.S. Environmental Protection Agency and the American Water Works Association estimate that drinking water agencies in the United States will need to spend at least \$300 billion over the next twenty years to install, upgrade and replace drinking water infrastructure.

The need for new water supply and treatment facilities, including desalination projects and the rehabilitation of aging infrastructure, comes at a time when the federal government is stepping back from its traditional role as a major, if not dominant, partner in financing and building water related infrastructure. The day of large direct grants flowing from Uncle Sam to local water agencies and utilities appears to be coming to a close as Congress and the Administration address other spending priorities.

So my colleagues and I in Congress face a challenge. We have a growing need for capital and a dwindling amount of federal dollars. How can we develop new financial tools to help local water agencies and utilities meet infrastructure requirements within a fiscally responsible federal budget? Our nation's homes, businesses, and farms are relying on the answer.

As a firm believer in capitalism, I'm confident that the market can help provide a solution, and Congress can help by providing incentives to the market. One tool the federal government created in the past to ensure that the taps never ran dry was the municipal bond market. This tax exempt financing allows water agencies and municipalities to tap into massive amounts of private capital to build and finance all kinds of infrastructure, instead of relying on Congress to appropriate the money.

Now, the question that I and others are considering is whether there are other tax-code or market related incentives we can create to encourage further investment in water infrastructure. Can we create a new mechanism to supplement tax exempt bonds that combines the private sector's greater capacity for risk and its ability to marshal funds quickly, with lower costs to public agencies for borrowed capital?

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One interesting idea would extend the existing authority to issue so-called tax credit bonds to water agencies and utilities for their use in financing new water supply projects involving water recycling, desalination, and ground water clean up. Tax credit bonds would allow water supply agencies access to interest-free loans to finance new infrastructure. Bond buyers, instead of receiving interest payments from the issuing agency, receive a federal income tax credit that can be used to offset their federal income tax liability.

Congress appropriately authorized tax credit bonds in the past to encourage school construction, investment in renewable energy projects, and reconstruction in the Gulf States after Hurricanes Katrina and Rita. If the federal government is going to require tougher drinking water standards, I think it's appropriate for Congress to give small communities, across Idaho and the nation, more tools to meet these standards without breaking the bank.

There would be no shortage of “winners” if we accept this approach. Not only would access to tax credit bond financing reduce water suppliers' reliance on the federal appropriations process, it would provide them with complete control of the financing and construction of their new projects. It would relieve pressure on the federal budget process and allow grant funding to be focused on the areas of greatest need. Finally, water utility ratepayers would be spared dramatic increases in their monthly bills whenever a new water supply project is built.

Tax credit bonds may not be the complete answer to our water infrastructure woes but they could be an important tool as we address the nation's growing water supply crisis. It is time to try something new so a growing America can continue to flourish.